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C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000327

SIPDIS

STATE FOR EAP/BCLTV, EB
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TAGS: ENRG PREL ECON PGOV BM
SUBJECT: BURMA: GOVERNMENT STYMIES EFFORTS TO DEVELOP AGING ONSHORE FIELDS

REF: RANGOON 146

Classified By: COM CARMEN MARTINEZ FOR REASONS 1.4 (B,D)

¶1. (C) Summary: Burma's onshore oil fields are decrepit, old, and produce very little. Western oil companies decided 10 years ago that new onshore prospects were not promising. Nonetheless, high world oil prices have created a wave of new foreign investment in onshore development and exploration. The GOB's response to this unlikely mini-boom? After allowing in a few prospectors, ban all new foreign investment in onshore fields. End summary.

Burmese Oil Production is Museum Quality

¶2. (SBU) A recent visit to one of Burma's four largest onshore oil fields, Yenanchaung, clearly illustrated the decrepit state of Burma's oil industry. Yenanchaung in Magwe Division 150 miles southwest of Mandalay, was first developed in 1887 -- two years after the last Burmese king was ousted -- and its peak production came in 1918 (16,000 barrels/day). The field is covered with antiquated rigs, pumps, and other machinery -- much of it still in operation. Now, its 140 wells are producing a paltry 1,880 barrels/day -- below its GOB-designated target of 2,000 b/d. Since 1997, Yenanchaung has been operated by a JV between the parastatal Myanmar Oil and Gas Enterprise (MOGE) and a foreign partner (now a French-Indonesian venture called Goldpetrol, formerly an Indonesian firm called Goldwater). Mostly this JV has focused on using technology to improve recovery of remaining oil from existing wells. However, in the past couple of years it has drilled four new wells, which are now producing 273 b/d, and in October 2004 Goldpetrol announced it would invest $8 million to dig six new test wells in 2005. According to the MOGE geologist at Yenanchaung, there are still 290 million barrels worth of reserves under the field (though he did not break out recoverable reserves from this figure), which could be tapped if deeper wells -- 7,500-8,000 feet -- are drilled.

¶3. (SBU) New investment in old fields is flowing into two of Burma's other onshore oil fields -- Mann and Htaukshabin/Kanni. They are also producing at low levels and are well past their peak production years. However, in the past several months, the private operators of these fields (to date only servicing or enhancing production at existing wells) have expressed interest in drilling new test wells. Focus Energy, a British Virgin Islands company operating the Htaukshabin/Kanni fields, announced in October 2004 it would invest $4 million to drill nine new wells. At the same time, the Rangoon-based, but Singpore-registered, Myanmar Petroleum Resources, Ltd. announced it would invest $9 million to sink five new wells in the Mann field (which produces about 2,400 b/d).

Onshore Exploration Planned

¶4. (SBU) On top of the new interest in squeezing more from existing fields, there has also been foreign interest in exploring for new onshore deposits. Such interest has been rare in Burma since foreign energy firms flooded into the country in the 1990s looking for onshore and offshore gas and oil. With a few exceptions, these companies subsequently deserted the country due to poor results or a poor business climate -- or both. Nonetheless, on January 26, the Chinese National Offshore Oil Corporation (CNOOC), alongside Golden Aaron Pte., Ltd of Singapore and China Huanqiu Contracting and Engineering Corporation, signed a production sharing contract (PSC) with MOGE to explore two large onshore blocks north of Mandalay. CNOOC and its partners also signed a PSC to explore an Andaman Sea offshore block north of the Yadana field. This same consortium also signed PSCs in 2004 with MOGE for exploration in two Bay of Bengal blocks off the Rakhine State coast, southeast of the Daewoo blocks (reftel), and a large block in the Andaman Sea off the Tanintharyi coast north of the Yetagun field.

¶5. (C) Based on previously poor results of onshore explorations, and the long lull in new exploration that's been marked only by a worsening investment climate, the

renewed interest in onshore exploration and expanded production is a bit unexpected. However, according to one foreign oil man in Burma, the global price of oil is driving activity even in marginal areas. He said that one barrel can be extracted from Burma for around $10 at an onshore well. Thus, smaller energy exploration firms are seeking even a marginal amount of additional oil because the profit margin is so large. The explanation for the larger Chinese state firms is less clear, though he speculated it was simply due to a campaign of these firms to seek everywhere for new sources of oil -- no matter how remote the chance of discovery.

GOB: Cease and Desist

¶6. (C) The expanding interest in Burma's onshore oil fields in late 2004 and early 2005 has sparked a curious response by GOB energy authorities. On March 7, the Ministry of Energy sent notice to all foreign investors that henceforth onshore blocks would be reserved exclusively for MOGE exploration and development. The proclamation does not appear to apply to existing onshore investments, and does not mention FDI in offshore fields. Authorities gave no reason for this unexpected announcement, though one energy source guessed that senior SPDC leadership was unhappy with paying scarce hard currency to foreign investors for their expertise and believed that MOGE could "do it just as well," with less foreign exchange outflow (though of course it cuts off foreign exchange inflow as well).

Comment: Snatching Defeat from Victory

¶7. (C) The decision to exclude foreign firms from future onshore exploration and development is a foolish decision in the midst of a multi-million dollar mini-boom in foreign investment in a sector that has been moribund for nearly a decade. Instead of maximizing the benefits of historically high oil prices and regional companies' hunger for new sources, the GOB has decided to pursue a misguided plan it thinks will save money and support an inefficient state-owned enterprise. Sadly this is only the latest of many illogical energy policy decisions -- not the least of which is the GOB's stubborn refusal to use any of its significant offshore gas reserves to remedy chronic and economically debilitating power shortages across the country. End comment.

Martinez